

Testimony of The Institute for Responsible Housing Preservation

**Presented by Brian Poulin
Financial Services Committee
U.S. House of Representatives
Hearing on Affordable Housing Preservation
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Mr. Chairman. Thank you for inviting me to testify on the important topic of affordable housing preservation. My name is Brian Poulin. I am a partner in Evergreen Partners LLC based in Portland, ME with offices in Fort Lauderdale, FL and outside of Boston, MA. My partners and I are solely involved in the acquisition, rehabilitation and preservation of federally assisted multifamily affordable housing properties. We own and manage approximately 4,800 units in 11 states.

I am here today in my capacity as President of the Institute for Responsible Housing Preservation ("IRHP"). Since 1989 IRHP has represented owners and managers of federally assisted multifamily properties on preservation issues including advocating for legislative and regulatory changes for preservation policies and providing educational seminars on preserving affordable housing. IRHP members worked with this committee and HUD in structuring and closing the first Section 236 Interest Reduction Payments ("IRP") preservation transactions in 1998. Today, these preservation transactions are known as IRP de-coupling transactions. More than 750 Section 236 properties – approximately 75,000 units – have been substantially rehabbed and preserved as affordable housing over the past 10 years using the de-coupling program. HUD recognizes the de-coupling program as one of its premier preservation initiatives.

Mr. Chairman, even with the success of the 236 de-coupling transactions, there is more work to be done in preserving the existing HUD multifamily portfolio. No one questions the

need for affordable housing. Various private and public studies prove that. Yet, notwithstanding the benefits and proven success of the Section 236 de-coupling preservation program HUD has not taken the lessons learned from this initiative and applied them beyond the Section 236 portfolio. Many other properties financed under other affordable housing programs are also in need of preservation. Many of these properties continue to be at risk to convert to market rate housing or are in crucial need of updating and repairs. These aging properties are approaching the end of their use restrictions, in most cases within the next few years.

We all know that it is much less expensive to preserve an existing asset than to build a new one. We think HUD should be embracing the Section 236 de-coupling success story and applying the same preservation tools to these other portfolios. HUD has the statutory and regulatory authority in most instances to implement the required preservation tools for other affordable programs.

The critical tools that made the de-coupling program a success include:

- A budget based rent increase which includes new debt service.

This upfront analysis and setting of rents is critical to get lenders and equity providers comfortable with any preservation transaction. Unfortunately, the Section 8 guidelines do not allow for budget based rent increases nor do they allow new debt service to be used in calculating rents, which would be capped at market levels. Without the ability to know what rents HUD will pay it is extremely difficult to finance a preservation transaction or be competitive with market rate buyers hoping to convert the property to market rate housing to the detriment of the residents most in need.

- An increased annual distribution for all preservation owners – for profits and nonprofits.

Both the Section 236 de-coupling program and the Section 202 preservation program permit an owner to receive a distribution of 6% of new equity. The annual distribution is a critical incentive to owners. Again the Section 8 guidelines do not allow for an updating of the annual distribution. Today, in many preservation transactions the new owner must accept the original owner's annual distribution limitation which was established in most cases more than 30 years ago and based on their original investment, not the new investment. HUD has the regulatory authority to change this but has chosen not to do so. Deferred developer fees which may be needed to make a transaction viable can only be paid from distributable cash. Any limitation potentially interferes with the ability to pay a deferred developer fee.

My partners and I have personal experience on this issue and find it difficult to justify the purchase, rehab and preservation of a HUD assisted property where the distribution cannot be updated. IRHP proposes that a cap on distributions be eliminated entirely or at the very least be re-calculated based on any new equity going into the development. Any limitation only serves as a disincentive to preservation.

- Rollover of certain HUD debt.

Oftentimes when properties are being transferred to new ownership certain HUD debt including flexible subsidy loans and Mark-to-Market soft debt cannot be paid off in full. HUD guidelines allow for flex subsidy debt to be rolled over if it is necessary to make the preservation transaction economically feasible. Notwithstanding these guidelines, HUD over the past several

years has required this debt to be repaid, often times making a good preservation transaction unworkable.

These are simple, practical and workable preservation tools which have made the Section 236 de-coupling program a huge success. I point out that the average rehab in the preservation transactions we have participated in is \$25,000-\$35,000 per unit. The properties are recapitalized and renovated taking into consideration today's standards – increased security, lighting, energy efficient appliances and windows, new baths and kitchens, landscaping and the creation of community and learning centers. We also provide a package of tenant supportive services, including lifestyle training, computer training and coordination with local service providers.

Mr. Chairman, your draft legislation incorporates the lessons learned from the Section 236 de-coupling program and sends a clear message to HUD that preservation should be a priority. It's unfortunate that it takes legislation to make it happen. Your draft bill however goes even further. It includes converting RAP and Rent Supp contracts which are nearing their 40 year expiration to project-based Section 8, it expands the events for providing enhanced vouchers to residents, and it keeps existing subsidies in properties that otherwise would be lost to deficit reduction. IRHP applauds your efforts. It is critical, however, that all preservation developers – for profit or nonprofit – have access to the same resources – that there is a level preservation playing field. Preservation developers are competing for the same resources, tax exempt bonds, low income housing tax credits, and other available federal, state and local funds. The final preservation bill must maintain this evenhandedness.

Mr. Chairman, thank you for providing us the opportunity to testify here this morning on this extremely important issue. We are committed to affordable housing. We are committed to preservation.